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SUBJECT: KYUSHU'S AGING SOCIETY CREATING BOTH HEADACHES AND OPPORTUNITIES

SUMMARY

¶1. While analysts frequently warn about the coming demographic and fiscal challenges that Japan's aging population will pose, in much of the Kyushu/Yamaguchi region that future has already arrived. Senior citizens age 65 and over now account for more than one in five Kyushu residents, and this proportion is forecast to reach nearly one in three by 2025. Rural prefectures are already struggling to provide health care and other services to senior citizens in outlying areas. Meanwhile, the continued population influx into Fukuoka Prefecture mirrors the national trend of young Japanese abandoning rural areas to concentrate in big urban centers. While the Government of Japan (GOJ) and local governments grapple with the skyrocketing costs of caring for the elderly, businesses are moving to take advantage of new opportunities this "gray society" is creating. End summary.

AROUND KYUSHU, VARYING SHADES OF GRAY

¶2. According to 2005 census figures, the population of the Kyushu/Yamaguchi region (seven Kyushu prefectures plus Yamaguchi in western Honshu) stood at 14.9 million, with a "senior rate" (i.e. portion of the population age 65 or older) of 22% - two percentage points higher than the national average. That share is forecast to rise to 27% by 2015 and to exceed 30% by 2025, ahead of the national rate. World-leading Japanese longevity also means more very elderly people: half of Kyushu seniors (particularly women) are already age 75 or older, and that population segment will grow sharply over the next two decades.

¶3. Around the region, the "senior rate" varies among prefectures, from a low of 18% in Fukuoka to over 24% in Yamaguchi and Kagoshima, tying them for fourth highest among Japan's 47 prefectures. Wide variations exist within prefectures. In Kagoshima, for instance, the rate is 17% in Kagoshima City but ranges as high as 50% in some small towns; rates exceed 30% in more than half the prefecture's municipalities. On the national level, the Japanese media reported widely in October 2005 that, a full year earlier than expected, the country had officially reached the "tipping point" at which deaths exceeded births - marking the start of population decline. In the Kyushu region, with the lone exception of Fukuoka, prefectural populations reached that point and began declining more than a decade ago.

FUKUOKA, KYUSHU'S FOUNTAIN OF YOUTH

¶4. While not exempt from the aging trend, Fukuoka Prefecture -

in particular the Fukuoka City metro area - is a steady magnet for Kyushu's shrinking population of young people. Attracted by Fukuoka's large number of universities, healthier economy and job opportunities, and abundant shopping and nightlife, the hip, younger crowd on Fukuoka streets contrasts sharply with the scene in most interior areas of Kyushu. Fukuoka City's population of under 40-year-olds, at 52% of the total, is by far the highest of any Kyushu city.

15. Fukuoka is the region's only prefecture where the population continues to grow. Officials here forecast that, even as Fukuoka's "senior rate" creeps higher in line with the national trend, it will average at least a full percentage point below the national average and well below the rest of Kyushu. On a regional level, Fukuoka is gradually becoming a microcosm of Japan's likely future - a teeming urban island of relative youth and prosperity, surrounded by a depopulated countryside largely abandoned to the elderly.

FOR SENIORS, EXPANDING SERVICES BUT ESCALATING COSTS

16. Both the national and local governments are grappling with the enormous fiscal and societal implications of the "elder boom." Under Japan's obligatory nursing care insurance system introduced in 2000, all citizens aged 40 and over must enroll and continue to pay monthly premiums for life - including those drawing benefits. Elderly beneficiaries, who receive services ranging from home nursing visits to full time hospice care, numbered 587,700 in Kyushu in 2003, up from 420,500 in 2000. System outlays in the region rose from USD 4.74 billion to 6.71 billion in the same three-year period.

17. In addition to their monthly premiums, beneficiaries under the system pay 10% of the fixed cost of the service received. The national insurance fund, supported by subscriber premiums, covers 50% of the remaining cost, with governments responsible

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for the other 50% (25% central government, 12.5% prefectures, 12.5% municipalities). For local governments, which must cover their portion out of general tax revenues, the pressure on budgets is enormous - especially in areas where the aging, declining population means a shrinking tax base. Kumamoto Prefecture officials told post that in the last five years their outlays for elderly care rose 55%. That includes a whopping 222% increase for home nursing services, due to rapidly rising demand from the elderly in smaller, more isolated communities.

18. Local officials say this situation is unsustainable, and government cost containment strategies will require the elderly increasingly to shoulder more of the cost for their own care. One major push is to limit full-time public nursing home/hospice care. The waiting time for admission to these facilities now averages 2-3 years, and starting in October 2005 nursing home patients must now pay separate room and meal charges (an average increase of USD \$250/month on top of the standard 10% service fee). Effective April 2006, a revision in the nursing care insurance law will require local governments to provide more services aimed at keeping the elderly in good health longer, such as more home visits for physical therapy/muscle training, nutritional counseling, etc. While this will cost more in the short term, officials hope they will save in the long term by helping the elderly to better care for themselves.

SERVICING THE ELDERLY BECOMES BIG BUSINESS

19. While caring for the elderly is a growing headache for local governments, it is increasingly lucrative for the private sector. The explosion in demand for home care and other services has attracted many new business entrants, and seniors with the means to pay - or with good private insurance to cover costs - can choose from many options. A social welfare official in Kumamoto Prefecture lamented, however, that his office is hard-pressed to license and regulate properly all the new service providers. Ensuring quality of care and preventing fraud/abuse is shaping up to be as much of a challenge as rising

costs, he said.

¶10. As the traditional Japanese practice of elderly parents living with grown children wanes, the number of private sector-run nursing homes, assisted living centers, and condos for seniors has mushroomed. There was only one such facility in all of Fukuoka Prefecture in 2000; by 2005 there were 121. Businesses are especially eager to tap well-to-do retirees. Post staff recently visited a luxury senior living center in Kumamoto, run by Kyushu Electric Power Co. (Kyuden), which opened in 2005. Residents enjoy top-notch facilities, including 24-hour nursing staff, but at a price: as much as USD \$70,000 up front, and \$1500-2000 per month thereafter depending on the size of the unit. Kyuden has a similar facility in Fukuoka and hopes to build others in each prefectural capital in Kyushu. Like Kyuden, other major Kyushu companies in unrelated lines of business - Nishinippon Railroad Co., Saibu Gas, and Fukuoka Jisho, to name a few - already operate senior living centers or plan to jump into the market. Other types of business, such as interior remodeling to make homes more accessible and "senior friendly," are also booming.

COMMENT

¶11. From post's discussions with officials around Kyushu it is clear that local governments are already feeling the strain of providing adequate public services for the growing elderly population. This is especially true in many rural communities where, given current trends, within another decade or two only the elderly will be left. Officials acknowledge that Japan's societal commitment to provide equitably for its senior population is wavering in the face of stark fiscal and demographic realities. Japanese senior citizens enjoy many more options for care and services than their counterparts elsewhere in the world, but accessing those services will increasingly depend on one's personal ability to pay. End comment.

WONG